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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 FEA-01 ERDA-07 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-02 INR-07
INT-05 L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02
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SSO-00 INRE-00 USIE-00 NSCE-00 OPIC-06 /115 W
----------128214 092145Z /64
O 092011Z DEC 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 6883

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PASS ARA/MEX FOR ROBERT DUNN

EO 11652: N/A
TAGS: ENRG, MX
SUBJECT: TRANSLATION OF ARTICLE ON THE PIPELINE
WHICH APPEARED ON EXCELSIOR, DECEMBER 9, 1977

1. TEXT FOLLOWS:

2. PEMEX WILL NOT BUY PIPES FROM U.S. STEEL FOR THE
PIPELINE.
--THE UNITED STATES REJECTED THE FINANCING
--CANADA, FRANCE AND JAPAN WILL PROVIDE THE MONEY
--ENERGY DEPARTMENT AND EXIMBANK DECLINE TO COMMENT
--A LOGICAL RESPONSE TO THE OBSTACLES, ACCORDING TO
OFFICIALS
"AS LONG AS THERE ARE CLIENTS, CREDIT WILL NOT
BE A PROBLEM." BY FAUSTO FERNANDEZ PONTE, EXCELSIOR
CORRESPONDENT.

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3. WASHINGTON, DECEMBER 8 -- PETROLEOS MEXICANOS
CANCELLED AN ORDER IT HAD MADE TO A NORTH AMERICAN
STEEL FIRM FOR 80,000 TONS OF PIPE FOR THE GAS PIPE-
LINE, IN VIEW OF INDICATIONS THAT THE UNITED STATES
GOVERNMENT WOULD NOT FINANCE THIS PURCHASE BEFORE
CONDITIONING IT TO THE PRICE OF NATURAL GAS IN MEXICO,
IT WAS OFFICIALLY ANNOUNCED HERE TODAY. AT THE SAME

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TIME, OFFICIAL SOURCES REVEALED THAT CANADA'S AND FRANCE'S PUBLIC SECTORS ARE PREPARED TO FINANCE THE CONSTRUCTION OF THE CHIAPAS TO TAMAULIPAS PIPELINE.

4. AN AUTHORIZED SPOKESMAN OF THE UNITED STATES STEEL CORPORATION, THE LARGEST STEEL COMPANY IN THIS COUNTRY, READ THE FOLLOWING TEXT TO NEWSPAPER-MEN:

5. "OUR CORPORATION HAS AGREED TO ACCEPT THE CANCELLATION OF THE PEMEX ORDER FOR A TOTAL OF 80,000 METRIC TONS OF PIPELINE, MEASURING 48 INCHES IN DIAMETER.

6. "THE CANCELLATION," SAID THE SPOKESMAN, "WAS ACCEPTED IN VIEW OF INDICATIONS THAT THE AGREEMENTS REGARDING THE FINANCING HAD NOT BEEN CONFIRMED," REFERRING TO THE FATE OF THE REQUESTS FOR 590 MILLION DOLLARS OF CREDIT PRESENTED BY PEMEX TO THE UNITED STATES IMPORT-EXPORT BANK (EXIMBANK).

7. THE EXIMBANK AND THE U.S. GOVERNMENT'S ENERGY DEPARTMENT DECLINED TO MAKE PUBLIC STATEMENTS ON THECANCELLATION OF THE ORDER; BUT PRIVATELY OFFICIALS OF THESE GOVERNMENT AGENCIES EXPRESSED INDIFFERENCE, AND ONE OF THEM EVEN REMARKED THAT PEMEX'S DECISION WAS TO BE EXPECTED.
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8. THE CORPORATION FOR EXPORT DEVELOPMENT (CDE) A CANADIAN GOVERNMENT AGENCY, IS STUDYING A REQUEST FROM PETROLEOS MEXICANOS TO FINANCE THE PURCHASE FROM CANADIAN STEEL COMPANIES OF PIPE AND DIVERSE EQUIPMENT TO EXTRACT HIDROCARBONS WHICH COULD AMOUNT TO 1 BILLION DOLLARS.

9. THE FRENCH FOREIGN TRADE BANK HAS APPROVED THE FINANCING OF THE PURCHASE FROM THAT COUNTRY'S STEEL MILLS, OF PIPES AND OCEAN PERFORATION AND EXTRACTION EQUIPMENT TOTALLING UP TO 200 MILLION DOLLARS.

10. THE BUSINESS COUNCIL OF JAPAN, A PRIVATE ORGANIZATION, ANNOUNCED THAT IT CONSIDERS MEXICO A COUNTRY WITH A "RISKY CLIMATE AS FAR AS DIRECT FOREIGN INVESTMENTS ARE CONCERNED" BUT THAT IT IS AN EXCELLENT MARKET FOR FINANCED STEEL EXPORTS.

11. DONALD JAMIESON, CANADA'S MINISTER OF INDUSTRY, COMMERCE AND TRADE, WHILE BEING QUESTIONED BY THE OPPOSITION, TOLD HIS COUNTRY'S PARLIAMENT THAT

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REQUESTS FOR FINANCING ISSUED BY "AUTHORIZED
REPRESENTATIVES OF THE MEXICAN
GOVERNMENT" HAD BEEN RECEIVED.

12. JAMIESON DID NOT IDENTIFY THE AUTHORIZED
MEXICAN REPRESENTATIVES, BUT IT IS INFERRED THAT
HE WAS ALLUDING TO SANTIAGO ROEL GARCIA, FOREIGN
RELATIONS SECRETARY IN PRESIDENT LOPEZ PORTILLO'S
ADMINISTRATION.

13. LAST WEEK IN OTTAWA, ROEL GARCIA AND JAMIESON
EXAMINED THE MEXICAN GOVERNMENT'S INTEREST IN
OBTAINING FINANCIAL BACKING TO ACQUIRE EQUIPMENT
FOR THE PIPELINE.
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14. JAMIESON SAID THAT ROEL GARCIA'S PROPOSAL WAS
TURNED OVER TO THE CDE FOR A PRELIMINARY STUDY,
PENDING FORMAL PRESENTATION OF AN OFFICIAL REQUEST
FROM PEMEX OR ANY OTHER MEXICAN GOVERNMENT AGENCY.

15. REQUEST APPROVED -- CONCERNING FRANCE'S

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INTEREST, THE FRENCH EMBASSY IN WASHINGTON TODAY CONFIRMED STORIES THAT THE FRENCH FOREIGN TRADE BANK (FFTB) HAD APPROVED A REQUEST PRESENTED BY PEMEX FOR THE FINANCING OF OIL EQUIPMENT PURCHASES, INCLUDING PIPE FOR OIL AND GAS PIPELINES.

16. THE REQUEST APPROVED BY THE FFTB WILL ALLOW PEMEX TO ACQUIRE SPECIALIZED OIL AND GAS PERFORATION AND EXTRACTION EQUIPMENT FOR USE IN THE OCEAN'S UNDERSOIL, AS WELL AS FOR PIPELINES, FROM FRENCH STEEL MILLS, ACCORDING TO THE OFFICIAL INFORMATION.

17. THE FRENCH EMBASSY ALSO INDICATED THAT THE PURCHASE WOULD BE TOTALLY FINANCED THROUGH FRENCH GOVERNMENT RESOURCES.

18. BESIDES THE FFTB, THE NATIONAL BANK OF PARIS, THE GENERAL SOCIETY OF CREDITS AND FINANCES, AND THE LYON CREDIT BANK, GOVERNMENT AGENCIES, WILL ALSO PARTICIPATE IN THESE OPERATIONS.

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19. PEMEX, ON THE OTHER HAND, SIGNED PURCHASE AGREEMENTS FOR EQUIPMENT AND PIPE WITH THE VALLOUREC AND USINOR FRENCH STEEL FIRMS, ACCORDING TO THE EMBASSY SOURCES.

20. THESE PURCHASES TOTAL 58 MILLION DOLLARS. AS FAR AS THE POSSIBILITY OF JAPANESE PARTICIPATION IN THE FINANCING OF MEXICO'S DEVELOPMENT OF PETROLEUM RESOURCES IS CONCERNED, THE JAPAN BUSINESS COUNCIL CARRIED OUT A STUDY ON FOREIGN INVESTMENTS AND ON THE LATIN AMERICAN EXPORT MARKET FOR LATIN AMERICA.

21. IN BOTH FIELDS, BRAZIL IS THE MOST ATTRACTIVE POSSIBILITY, ACCORDING TO THE JBC.

22. IN TERMS OF FOREIGN INVESTMENT, MEXICO'S CLIMATE INVOLVES RISKS.

23. ARGENTINA IS THE LATIN AMERICAN COUNTRY WHERE FOREIGN INVESTMENTS DEFINITELY REPRESENT A MAJOR RISK, AND THERE ARE NO STABLE MARKET CONDITIONS FOR EXPORTS TO OTHER COUNTRIES, BECAUSE OF THE STATE OF UNDECLARED CIVIL WAR.

24. MEXICO, ACCORDING TO THE COUNCIL, IS AN EXCELLENT MARKET FOR FINANCED JAPANESE EXPORTS OF

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INDUSTRIALIZED PRODUCTS.

25. FOR THE TIME BEING, THE COUNCIL DOES NOT RECOMMEND DIRECT INVESTMENTSIN MEXICO, BUT IT DOES RECOMMEND THE PROMOTION OF JAPANESE EXPORTS TO THE MEXICAN MARKET.

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26. JAPANESE STEEL EXPORTS WILL BE REDUCED BY A HIGHLY SIGNIFICANT VOLUME DURING THE NEXT FEW MONTHS, ACCORDING TO THE COUNCIL.

27. THIS REDUCTION WILL BE A RESULT OF PROTECTIONIST MEASURES DECREED BY PRESIDENT JIMMY CARTER'S GOVERNMENT.

28. LAST TUESDAY, CARTER ANNOUNCED A PLAN TO PROTECT THE UNITED STATES STEEL INDUSTRY FROM "UNJUST COMPETITION" FROM JAPAN AND OTHER INDUSTRIALIZED NATIONS WHO EXPORT STEEL TO THE U.S. MARKET AT MUCH MUCH LOWER PRICES THAN THE PRODUCT HERE.

29. PEMEX'S ORDER WAS ONE OF THE TWO LARGEST THAT THE U.S. STEEL COMPANY (THE U.S.) RECEIVED THIS YEAR. THE OTHER WAS MADE BY PRIVATE OIL COMPANIES FOR 200,000 METRIC TONS OF PIPE FOR A GAS PIPELINE IN THE UNITED STATES.

30. THE U.S. STEEL CORPORATION SPOKESMAN SAID THAT THE CANCELLATION WOULD INEVITABLY AFFECT THE COMPANY'S PRODUCTION PLANS, ONE OF WHOSE BRANCHES IN NEW BAYTON, TEXAS, HAD BEGUN TO BE EXPANDED, WITH PLANS TO PRODUCE 48-INCH-DIAMETER PIPES FOR THE CACTUS, CHIAPAS, TO REYNOSA, TAMAULIPAS, PIPELINE.

31. THE INSTALLATIONS BEGAN TO BE EXPANDED WHEN PEMEX PALCED ITS ORDER (SIGNING A LETTER OF

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INTENTION) AND WHEN THE U.S. STEEL CORPORATION OBTAINED EXIMBANK'S CONFIRMATION THAT THE CREDIT WOULD BE GRANTED TO FINANCE THE PURCHASE OF PIPES, WHICH WOULD HAVE A 340-MILLION-DOLLAR CREDIT.

32. THE NEW BAYTON INSTALLATIONS WILL HAVE AN ANNUAL PRODUCTION CAPACITY OF 700,000 TONS OF 48-INCH DIAMETER PIPE.

33. THE COMPANY PLANNED TO TRANSFER TO TEXAS, PERSONNEL WHO HAD BEEN DISMISSED FROM ITS PENNSYLVANIA PLANTS.

34. REQUESTS APPROVED -- THE U.S. STEEL CORPORATION USED TO PERIODICALLY REVIEW THE CREDIT REQUESTS PRESENTED BY PEMEX TO THE EXIMBANK AND EVEN MADE SOME MOVES TO HAVE THE REQUESTS HANDLED AS QUICKLY AS POSSIBLE.

35. THE REQUESTS WERE APPROVED JUST TWO MONTHS AGO, AND THE EXIMBANK WAS ABOUT TO GRANT THE CREDITS
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WHEN ALL OF A SUDDEN IT WAS DECIDED TO SUSPEND THEM TEMPORARILY.

36. THIS DECISION WAS BASED ON THE PUBLIC OPPOSITION TO THE GRANTING OF THE CREDITS IN THE U.S. SENATE. THAT OPPOSITION WAS VOICED BY SENATOR ADLAI E. STEVENSON III (D.-ILLINOIS), WHO USED THE LEGISLATIVE RECOURSE OF PRESENTING A DRAFT RESOLUTION TO THE SENATE CONDITIONING THE EXIMBANK CREDITS TO THE PRICE OF THE NATURAL GAS TO BE SOLD BY PEMEX

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TO THE UNITED STATES.

37. SENATOR LLOYD M. BENTSEN DENOUNCED THE DRAFT RESOLUTION AS A MANEUVER ON THE PART OF THE UNITED STATES GOVERNMENT.

38. IN THE MEANTIME, AND AS A RESULT OF STEVENSON'S INTERVENTION, PEMEX SUSPENDED NEGOTIATIONS WITH THE U.S. OIL COMPANIES THAT WERE INTERESTED IN MARKETING MEXICO'S NATURAL GAS IN THE UNITED STATES.

39. PEMEX SET DECEMBER 31 OF THIS YEAR AS THE DEADLINE FOR THE U.S. OIL COMPANIES TO PRESENT PLANS FOR THE MARKETING OF MEXICO'S NATURAL GAS WHICH WERE CONVENIENT TO MEXICO'S INTERESTS.

40. AT THE SAME TIME, ENERGY SECRETARY JAMES SCHLESINGER SAID PUBLICLY IN A SEMINAR OF DIRECTORS OF U.S. OIL COMPANIES THAT THE UNITED STATES WOULD NOT TOLERATE DEPENDENCE ON NATURAL SUPPLIES FROM OTHER COUNTRIES.

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42. SCHLESINGER PUT PRESSURE ON THE U.S. OIL COMPANIES SO THAT THEY WOULD NOT NEGOTIATE WITH PEMEX UNDER CONDITIONS SET BY PEMEX, THAT IS, THAT THE MEXICAN NATURAL GAS WAS TO BE PAID FOR ACCORDING TO THE FLUCTUATING PRICE OF THIS PRODUCT IN THE INTERNATIONAL MARKET. THE AVERAGE FLUCTUATION OF PRODUCT IN THE UNITED STATES WAS 2.60 DOLLARS PER THOUSAND CUBIC FEET IN THE QUARTER FROM JULY TO SEPTEMBER OF THIS YEAR AND HAS REMAINED THE SAME THROUGH THE PRESENT QUARTER.

43. SCHLESINGER EVEN SUCCEEDED IN HAVING THE STATE DEPARTMENT PUT PRESSURE ON U.S. OIL COMPANIES AND ON ON PEMEX.

44. PRESSURES ON PEMEX WERE MADE THROUGH ITS CREDIT REQUESTS. SINCE THESE REQUESTS HAD ALREADY BEEN APPROVED, THE GRANTING OF THE CREDITS COULD NOT BE HELD BACK UNLESS THEY MET WITH CONGRESSIONAL OPPOSITION. SCHLESINGER THEN WENT TO (SENATOR ADLAI) STEVENSON, WHO REJECTED THE CREDITS.

45. AND LAST WEEK, AFTER BEING HELD BACK FOR SEVERAL WEEKS, PEMEX'S REQUESTS FOR CREDITS WERE PUT IN AN "INDEFINITE ADDITIONAL REVISION" CATEGORY,

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WHICH IS THE TECHNICAL EUPHENISM USED BY THE EXIM-
BANK AND OTHER CREDIT INSTITUTIONS WHEN A REQUEST FOR
CREDIT IS CONDITIONED TO A POLITICAL INTEREST AND
WHOSE FUTURE IS UNCERTAIN.

46. THE REVISION OF THE CREDITS CAUSED PANIC AT THE
HIGHEST LEVELS OF THE U.S. STEEL CORPORATION.

47. THE SPOKESMAN FOR THE COMPANY SAID THAT IT
HAS BEEN KNOWN FOR SOME TIME THAT THE REQUEST FOR

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FINANCING CREDITS WERE NOT TO BE APPROVED UNLESS
PEMEX REACHED AN AGREEMENT WITH (U.S.) OIL COMPANIES;
IN OTHER WORDS, THE CREDITS WOULD BE APPROVED ONLY
IF PEMEX AND THE OIL COMPANIES REACHED AN AGREEMENT
NOT BASED ON THE CONDITIONS SET BY MEXICO.

48. THE REQUESTS FOR CREDITS PRESENTED BY PEMEX WERE
PLACED IN AN INDEFINITE ADDITIONAL REVISION AS
PRESSURE TO (MAKE MEXICO) ACCEPT A FIXED PRICE FOR
THE NATURAL GAS IN THE NEGOTIATIONS WITH THE
CONSORTIUM OF SIX (U.S.) OIL COMPANIES.

49. PEMEX AND THE CONSORTIUM WERE ABLE THIS WEEK
TO REACH AN AGREEMENT WITH REGARD TO THE TERMS AND
CONDITIONS OF THE CONTRACT TO MARKET MEXICO'S
NATURAL GAS IN THE UNITED STATES.

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50. CANCELLATION -- WHEN THIS AGREEMENT WAS REACHED ACCORDING TO THE CONDITIONS SET BY PEMEX, THE EXIM-BANK DISCLOSED THAT THE CREDITS TO FINANCE THE ACQUISITION OF 48-INCH STEEL PIPE FOR
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THECONSTRUCTION OF THE PIPELINE WERE NOT TO BE GRANTED.

51. PEMEX, EVEN AFTER THE AGREEMENT WAS REACHED, CALLED OFF THE ORDER FOR THE STEEL PIPE.

52. THE SPOKESMAN FOR THE U.S. STEEL CORPORATION SAID THAT THE COMPANY AGREED TO THE CANCELLATION OF PEMEX'S ORDER AFTER IT CONFIRMED RUMORS INDICATING THAT THE CREDITS FOR THE FINANCING OF THE OPERATION WERE NOT BE GRANTED.

53. CONSEQUENTLY, MEXICO'S NATURAL GAS WILL BE SOLD AT THE PRICE SET FOR IT BY PEMEX. THIS PRICE COULD INCREASE OR DECREASE ACCORDING TO THE QUARTERLY ADJUSTMENTS MADE IN ACCORDANCE WITH THE AVERAGE FLUCTUATIONS IN THE INTERNATIONAL MARKET.

54. THE PRICE -- WHICH AT PRESENT IS 2.60 DOLLARS -- COULD INCREASE IN THE NEXT QUARTER UP TO 2.70 DOLLARS, ALTHOUGH IT COULD ALSO COME DOWN TO 2.50, EVEN THOUGH THERE ARE SIGNS THAT THE TENDENCY OF THE PRICE IS TO INCREASE.

55. PEMEX AND THE CONSORTIUM WILL SIGN THE CONTRACT ON THE MARKETING (OF THE NATURAL GAS IN THE UNITED STATES) NEXT WEEK, ACCORDING TO OFFICIAL INFORMATION FROM THE OIL COMPANIES.

56. NEITHER THE EXIMBANK NOR THE U.S. ENERGY DEPART-MENT HAD MADE ANY OFFICIAL COMMENT ON THE CANCELLATION (BY PEMEX) OF THE ORDER FOR STEEL PIPE FOR THE CONSTRUCTION OF THE PIPELINE.
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57. PRIVATELY, HOWEVER, EXIMBANK OFFICIALS SAID PEMEX WILL BUILD THE PIPELINE WITH OR WITHOUT EXIMBANK FINANCE CREDITS BECAUSE OF U.S. INTEREST IN BUYING MEXICO'S NATURAL GAS.

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58. ALSO IN PRIVATE, OFFICIALS OF THE ENERGY DEPARTMENT INDICATED THAT PEMEX'S DECISION TO CALL OFF ITS ORDER WAS NOT A SURPRISING MOVE, AND THEY CONSIDER IT AS A LOGICAL RESULT OF THE DIFFICULTIES OF GETTING THE FINANCING.

59. OFFICIALS OF THE ENERGY DEPARTMENT SAID THAT THE FINANCING OF THE PIPELINE WILL NOT BE A PROBLEM FOR MEXICO AS LONG AS THERE ARE BUYERS (FOR MEXICO'S NATURAL GAS), AND THESE BUYERS APPEAR TO HAVE AGREED TO PEMEX CONDITIONS." (END OF TEXT).
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Message Attributes

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Secure: OPEN
Status: NATIVE
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TAGS: ENRG, MX
To: STATE
Type: TE
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